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BUILDING GOOD GOVERNANCE AND ECONOMIC RESILIENCE IN SMALL STATES

Paul Sutton

Abstract. The issue of "good governance" has been at the centre of the development debate for more than ten years. It is still a contested term with a high normative content. Nevertheless there is a broad measure of agreement on what might be termed essential elements such as open, transparent and accountable government; efficient, effective and responsive administration; respect for human rights and the rule of law. Recently, good governance has been associated with economic resilience building, particularly for small states, which are very highly exposed to external shocks. This chapter argues that one of the characteristics of small states is that everything is interconnected in ways it is not in larger countries. This interconnectedness must be at the heart of policy to improve resilience and in turn demands a very broad brush policy approach to service the very special needs of small states.

1. Introduction

The issue of "good governance" has been at the centre of the development debate for more than ten years. It is still a contested term with a high normative content. Nevertheless there is a broad measure of agreement on what might be termed essential elements such as open, transparent and accountable government (often defined as liberal democracy); efficient, effective and responsive administration; respect for human rights and the rule of law.

Recently, good governance has been associated with economic resilience building, particularly for small states, which are very highly exposed to external shocks. In a recent conference, the promotion of good governance in the public and private sector of small states was considered to be a major element of an integrated approach to build resilience (Islands and Small States Institute, 2006: paragraphs 4 and 11).

This chapter argues that the concept of good governance for small states needs to be further researched in order to associate it with the resilience building of these states (see Appendix 1 for a list of small states). The section that follows briefly examines the concept of good governance and notes its link to improved economic development. The third section reviews the governance record in small states using the World Bank governance indicators. It identifies strengths and weaknesses and points to the need for a more targeted approach focused on regions and very small size. The fourth section examines the two dimensions of governance in which small states appear to be weakest—effective government and regulatory quality—identifying some policies that have been recommended to improve performance and some difficulties in their application and measurement. The fifth section looks at the concept of economic resilience and good governance in general, raising some issues which need to be further explored to understand the contribution good governance can make to building resilience. The sixth section concludes the chapter with some proposals for a research and policy agenda in connection with the governance of small states.

2. The Concept of Good Governance

One of the more important and recent elaborations of the concept of governance is the work of Hyden and Court (2002) and Hyden et al. (2005). Their approach to governance is very broad defining it as "the formation and stewardship of the formal and informal rules that regulate the public realm, the arena in which state as well as economic and social actors interact to make decisions" (Hyden and Court, 2002: 13). This definition treats governance as a process and an activity which includes government but is much wider than that. Six functional areas of governance are identified by Hyden and Court (2002: 16-22):

1. civil society: where citizens raise and become aware of political issues;
2. political society: combining societal interests into policy proposals;
3. government: where policies are made by governmental institutions;
4. bureaucracy: where policies are administered and implemented;
5. economic society: the way state and market interact to promote development; and
6. the judicial system: where disputes and conflicts are resolved.

According to Hyden and Court (2002: 25), good governance appears in a "series of basic principles that reflect the emerging global consensus of what should, and could, constitute good governance." These are defined as follows, with the presumption that the more there is, the better it is:

- Participation: the degree of involvement and ownership by affected stakeholders;
- Decency: the degree to which the formation and stewardship of rules are undertaken without harm or humiliation to the people;

- *fairness:* the degree to which rules apply equally to everyone in society;
- *accountability:* the degree to which public officials, elected as well appointed, are responsible for their actions and are responsive to public demands;
- *transparency:* the degree to which decisions made by public officials are clear and open to scrutiny by citizens or their representatives;
- *efficiency:* the degree to which rules facilitate speedy and timely decision-making.

These elements are combined with the six functional areas to yield an analytic framework on two axis of 36 boxes which locate the core concerns of governance and act as templates to gather evidence on the performance of governance in any one or more states. This framework is reproduced as Table 1. The framework is useful in quickly identifying key issues and in demonstrating the inevitable complexity of building "good governance". Of note is that Hyden and his associates find that, in the 16 countries surveyed (none of which were small states), some "boxes" matter more than others. For example, in the civil society area: freedom of expression and assembly; in the political society area: free and fair elections; in government: civil-military relations; in bureaucracy: transparency and accountability; in economic society: absence of corruption; and in the judiciary: impartial judgement (ODI, 2005: paragraph 35).

Table 1
Governance Fundamentals
Based on Political Arenas and Key Principles

Principle/ Arena	Participation	Fairness	Decency	Accountability	Transparency	Efficiency
Civil Society	Freedom of association	Society free from discrimination	Freedom of expression	Respect of governing rules	Freedom of the media	Input in policy making
Political Society	Legislature representative of society	Policy reflects public preferences	Peaceful competition for political power	Legislators accountable to public	Transparency of political parties	Legislative function affecting policy
Government	Intra-governmental consultation	Adequate standard of living	Personal security of citizens	Security forces subordinated to civilian government	Government provides accurate information	Best use of available resources
Bureaucracy	Higher civil servants' participation in policy-making	Equal access to public services	Civil servants respectful towards citizens	Civil servants accountable for their actions	Clear decision-making process	Merit-based system for recruitment
Economic Society	Consultation with the private sector	Regulations equally applied	Government's respect for property rights	Regulating private sector in the public interest	Transparency in economic policy	Interventions free from corruption
Judiciary	Consultative processes of conflict resolution	Equal access to justice for all citizens	Human rights incorporated in national practice	Judicial officers held accountable	Clarity in administering justice	Efficiency of the judicial system

Source: ODI (2006)

At the same time as there is growing consensus on the essential elements of good governance there is also a growing understanding that the concepts and principles of governance "make no sense without adequate contextual references. The particular conditions of each country provide both constraints and opportunities to improve governance" (ODI, 2006). In practice, this has meant an approach to good governance that increasingly begins from the existing realities of the state (or region) and then builds appropriate programmes in accordance with whether the state is a failed state, or one with pronounced personal rule, or is institutionalised minimally, or whatever (Grindle, 2005). In the case of small states as a specific group this can prove difficult because of the wide range of variation within them.

Some work on the governance of small states has been done for the South Pacific region and, to a lesser extent, for the Caribbean region. But none of it has been brought together in any single study which distinctively focuses on small states. Nevertheless, what is apparent from the literature on small states is that high levels of democracy prevail in many of them along with reasonably good standards of public administration when compared to larger developing countries (see for example Anckar, 2004). This positive record, when combined with small size and mostly middle-income status, means they cause no major problems and so can safely be overlooked – not only by the various international organisations and donors, but also by much of the academic community.

This viewpoint, however, is too complacent. Small states may have serious problems in promoting or maintaining good governance. This was explicitly recognised in a CARICOM submission to the Commonwealth Secretariat/World Bank Joint Task Force on Small States when it argued:

> "the cost of poor governance in a small society is very large, given the extreme difficulty in recovering from the consequences of inappropriate policies and practices sustained over a very long period. There is thus a clear need to build a national consensus on objectives; a clear need for a national appreciation for the ease with which the system can go off track, as a result of both domestic and external shocks; and a broad acceptance that the prospects for every individual are intimately bound up with the future of the community as a whole" (CARICOM 2000).

More recently, comments relating to the consultation exercise undertaken in 2006 in connection with the Report to review that small states' agenda (Briguglio, Persaud and Stern, 2006: Annex I) included the following "several senior officials felt that good governance was the most important factor" and "several governments, most notably in the Pacific, highlighted governance as their major development challenge". The issue of securing good governance in small states is thus not a minor consideration but, as with many larger states, a major preoccupation in the search for development and greater resilience.

3. Good Governance in Small States: An Overview

The development of indicators to measure "good governance" is in its infancy. There is much controversy and several competing systems (Grindle, 2005). The one chosen here is that developed by the World Bank (Kaufmann et al., 2007). There are two reasons for doing so. The first is that it covers the largest number of small states. Second, its various dimensions correspond to some extent to the six functional areas reported in the previous section.

These six aspects of governance are:

- *voice and accountability*: measuring the extent to which a country's citizens are able to participate in selecting their government as well as freedom of expression, association, and a free media.
- *political stability and absence of violence*: measuring perceptions of the likelihood that the government will be destabilised or overthrown by violent means, including domestic violence and terrorism.
- *government effectiveness*: measuring the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- *regulatory quality:* measuring the ability of the government to formulate and implement sound policies that permit and promote private sector development.
- *rule of law*: measuring the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police and the courts, as well as the likelihood of crime and violence.
- *control of corruption:* measuring the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "state capture" of the state by elites and private interests.

The data cover 212 countries for the year 2006. The authors of the index are at pains to point out that much of it is subjective and subject to significant qualification regarding its findings. Nevertheless, it can provide a contemporary "snapshot" of governance in small states which allows some patterns to be identified even if individual features, as reflected in the scores for each of the six dimensions, "remain a rather blunt instrument for specific policy advice at the country level" (Kaufmann et al., 2005: 42).

The basic data on the six dimensions are presented as Appendix 2. The measure used is that of "percentile rank" which indicates the percentage of countries that rate below the selected country (subject to margin of error). Higher values therefore imply better governance ratings. Full data sets over the six variables are reported for 46 of the 50 states listed in Appendix 1.

Using as a dividing line the average world total for each of the six indicators, Appendix 2 shows 29 states (33 if the 4 with incomplete data are included) as having a positive record of governance (above the average) while 15 have a negative record (below average). Two states are "middling" with 3 negative and 3 positive indicators. The positive categories are primarily composed of European, Asian and Caribbean states. The latter are particularly worthy of note, with 9 Caribbean states so identified as against one "middling" (Suriname) and two negative (Belize and Guyana). This confirms the reputation the Caribbean enjoys of being the most democratic region in the developing world (its regional indicators are above those of all regions except the OECD's). By contrast, sub-Saharan African states dominate the negative category with only 3 in the positive category (Mauritius, Cape Verde and Seychelles). At the same time, however, 6 states are above the regional average (with 3 below and 2 middling) for sub-Saharan Africa, suggesting small African states may be better governed than larger ones.

The most varied experience is to be found among the Pacific Island states with 7 in the positive category, 1 "middling" and 3 negative. While no calculation has been done to see if this record for small states is better than that for larger states, it would appear to confirm evidence from elsewhere in the World Bank as reported in their Country Policy and Institutional Assessments that "small states" overall policy and institutional performance has been at least as strong as that of larger countries" (Briguglio, Persaud and Stern., 2006: paragraph 76).

Of even greater note is that the smaller the state, the better the record. Dividing the countries by percentile rank on population levels into four groups (including the 4 with incomplete data) the first quartile (states with a population above 750,000) shows 6 above average, 6 below average, and 1 middling; the second quartile (population above 320,000) 6 above average, 5 below, 1 middling; the third quartile (population above 100,000) 9 above average, 3 below; and the fourth quartile (population 100,000 and below) 12 above average and 1 below. While some of this no doubt can be explained by the relatively greater number of African countries in the first two quartiles and of Caribbean and European in the last two quartiles it does raise some interesting questions of size as a "threshold" in securing good governance.

Lastly, there is the question of economic development. Better governance is positively associated with improved economic performance as measured by per-capita income (Grindle, 2005: 4). Taking US$4000 per-capita income as the dividing line, 23 of the 25 small states with incomes above this record 4 or more positive indicators (or 3 in the case of those with incomplete data) while 13 small states with incomes below it record 4 or more negative indicators. Among the negative records, only two states (Equatorial Guinea and Gabon) have an income above US$4000 per capita. At the same time, 10 of the small states with positive records have per-capita incomes below US$4000 (in the highest category of only positive indicators, there are 15 states with incomes above US$4000 and 3 with incomes below this figure). In general, the association of higher per-capita income and good governance appears supported in small states with increasing levels of income associated with increasing levels of good governance.

These broad preliminary findings suggest the utility of disaggregating small states by region in line with the recommendation in the earlier section on the importance of context, as shown in Table 2. There also appears to be some merit in raising distinctions in size and per-capita income within small states.

Table 2
Small States Classified by Region

Africa	Cape Verde, Comoros, Djibouti, Equatorial Guinea, Gabon Gambia, Guinea-Bissau, Mauritius, São Tomé and Príncipe, Seychelles, Swaziland.
Asia	Bahrain, Bhutan, Brunei, Maldives, Qatar, Timor Leste.
Caribbean	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago.
Europe	Andorra, Cyprus, Estonia, Iceland, Liechtenstein, Luxembourg, Malta, Monaco, Montenegro, San Marino.
Pacific	Fiji Islands, Kiribati, Marshall Islands, Micronesia (Federated States), Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

Voice and accountability. Of 50 small states, 34 have above-average global ratings and 16 below. All the Caribbean states have higher ratings, as do 9 of the 10 European and 9 of the 11 Pacific states. Poorer than average global ratings are recorded for 7 out of 11 African and for all the Asian states. In terms of population it clearly pays to be smaller. Twenty-four of the above-average states are in the two lowest quartiles (population below 320,000) and only one state (Tonga) has lower than average global ratings. By contrast, 15 of the below-average states are in the upper two quartiles. It also pays to be wealthier. Twenty of the above-average states are in the two highest quartiles (per-capita income above US$4000) although there are 14 states with above-average ratings in the lowest quartiles, underlining the generally good ratings in this dimension.

Political stability and violence. Twelve of the 50 states have lower-than-average ratings and 38 higher than average ratings. Of the 12 states with lower ratings, 6 are African, 4 Caribbean and 2 Asian. All Pacific and European states have higher ratings. In this dimension, smallness brings benefits. All states (28 in total) with a population below 446,000 have above-average global ratings. These figures could, of course, be distorted, by under-reporting the level of instability and violence. Carment et al. (2006) raise this possibility but they also find, as others have done before them, that small island developing states report lower levels of conflict (or alternatively, that conflict may take other forms). Higher per-capita income states (21 out of 25 have income per capita above US$4000) also tend to have lower levels of political instability and violence.

Government effectiveness. Twenty-nine of the 50 states have higher-than-average ratings and 21, below average. The greatest proportion of above-average states is to be found among Caribbean (11), Asian (5) and European (8) states. The greatest proportions of below average are in Pacific (9) and African states (8). The more even balance of those above and below average compared to the two previous governance dimensions is also found in the percentile figures. In the first two quartiles, 15 are above average and 10 below, while in the lower two quartiles, 14 are above average and 11 below. This last set of figures is perhaps a little surprising since one of the strongest arguments in the literature on small states relates to returns of scale in the provision of public services, where the smaller you are, the greater the costs (and by implication, the greater the inefficiencies and/or lack of services). Lastly, there is a clear relation between income and government effectiveness. Twenty of the above-average states have incomes over US$4000 while 16 of the below average have incomes below this figure, with 10 out of 13 of them in the bottom quartile (incomes below US$2170 per capita).

Regulatory quality. Twenty-three of the reported 46 small states have higher than average ratings and 23 are below average. Proportionately the greatest number of those with below-average ratings is to be found in Africa (9) and the Pacific (7) with Asia and the Caribbean recording 2 each. All European ratings except one are above average. In terms of population, the greatest number of below average (15) are in the two upper quartiles and the greatest number of above average (13) in the lowest two quartiles. This may reflect the need for the smallest countries to be more open. Income also appears to be very relevant. The 17 states with the highest per-capita incomes (above US$8650) all have positive ratings while the 14 poorest states (per-capita income below US$2170) all have negative ratings. This suggests capacity is very important in this dimension.

Rule of law. Thirty-five states have higher-than-average ratings and 15 are below average. Asia and Europe have one below-average country, the Pacific 2, the Caribbean 3, and Africa 8. The importance of being small again appears to be a consideration. Twenty-three of the countries with higher than average ratings lie in the lowest 2 quartiles (population below 330,000) while 13 of those with lower than average ratings are in the two highest quartiles. On this measure very small states have a very good record. Income again also matters. Twenty-two countries with higher than average ratings lie in the top 2 quartiles (income above US$4000) while 12 with below-average ratings are in the lowest 2 quartiles.

Control of corruption. Of the 46 small states recorded, 28 have higher than average ratings and 17 lower-than-average ratings, with one state (Micronesia) scoring exactly 50 percent. The lower than average ratings are concentrated in the African states (8) and the Pacific states (4), with two each for Asia and the Caribbean. All reported European countries with one exception have higher than average ratings as do 10 Caribbean states and 4 Asian states. Size does not appear to make too much difference with 25 states in the first two quartiles reporting 12 above average and 13 below-average ratings. The lowest two quartiles report a better record with 16 states above average, 4 below, and one at 50 percent. Higher per-capita income states also have a better record with 19 states above average in the top two quartiles (21 states) but only 9 in the bottom two quartiles (25 states). All states with a per-capita income above US$8250 have a positive record.

This analysis suggests the importance of targeting resilience building in small states according to circumstance. In terms of small states as a group the rank order of success is as follows:

1. political stability/absence of violence (76 percent above average);
2. rule of law (70 percent above average);

3. voice and accountability (68 percent above average);
4. control of corruption (62 percent above average);
5. government effectiveness (58 percent above average);
6. regulatory quality (50 percent above average).

This list indicates that there are areas where improvement in governance is called for, in order to build economic resilience. Priority should be given logically in the reverse order i.e., beginning with measures to improve regulatory quality followed by government effectiveness.

At the same time, the regional analysis points to the need for assisting small states in improving their governance.

Africa, and more especially mainland Africa, is the region in need of the greatest improvement in governance in virtually every dimension. In this respect it is tempting to conclude that African small states share much the same predicament as larger African states, and so do not need assistance as small states but essentially as African states.

The Pacific also needs help as a region to build government effectiveness, improve regulatory quality and control corruption.

The other regions either do not need help at all (Europe with the exception of Montenegro) or, in the case of Asia and the Caribbean, specific help to particular states (e.g., Timor Leste and Guyana) or specific governance dimensions, in the context of the overall governance performance of the state (e.g., Bhutan, Belize and Suriname).

There may be some merit in considering distinctions in terms of size. In three of the dimensions - voice and accountability, political stability and absence of violence, and the rule of law - the smaller states seem to perform better. This is also true marginally in terms of regulatory quality.

It is not entirely clear at what level these special advantages "kick in" but once the population gets above 300,000 (or 400,000) the benefits of being very small appear to diminish. This raises the question as to whether the particular category of "microstate", which was much discussed in the 1970s and early 1980s but which was then dropped, should once again be adopted to aid analysis and policy, at least as far as the analysis of governance is concerned.

Lastly, higher per-capita income would seem to be related to those governance indicators in respect of voice and accountability, political stability and absence of violence, the rule of law and control of corruption. This is not particularly surprising, but one may ask why this is not the case for governmental effectiveness and, more marginally, regulatory quality? In both these dimensions the general supposition would be that more wealthy states can afford better government and are familiar with better regulation. This in itself then raises further questions about the appropriate form of public administration/management in small states and whether regulation needs to be tailored to specific circumstances.

4. Towards More Effective Government and Better Regulation

The above overview indicates that the immediate general priority for small states is building more effective government and securing better regulation. Neither of these themes is new. The former has been much discussed over the years within the specialist public administration literature on small states (Baker, 1992) while the latter has become an important feature for all states as a result of the dominant neo-liberal development paradigm and the rapid spread of globalisation. Both themes were also central preoccupations of the Commonwealth Secretariat/World Bank Joint Task Force on Small States in 2000, where they appeared as recommendations for strengthening capacity. These covered the actions of both the public and the private sector, with an emphasis "on action that the public sector can take, both to improve efficiency and effectiveness in providing public services, and to provide an environment that encourages stronger private sector development" (Commonwealth Secretariat/World Bank, 2000: 80).

Improving the Public Sector

The literature on small states identifies four behavioural features (Sutton, 2006: 13-15) which shapes the performance of the public service:

Exaggerated personalism. The public service is usually strongly influenced by dominant personalities (ministers and senior public officials) and open to personal favour (and patronage) in its day-to-day operations;

Limited resources. There may be multiple portfolios among senior staff leading to inappropriate training and career progression along with an inability to provide a full range of public services except at a relatively high cost;

Inadequate service delivery. This occurs as a result of high costs of infrastructure and low motivation within the public sector among middle-level management and lower-level employees; and

Relatively high degree of dependence on foreign consultants. The dependence on foreign management consultants often leads to these consultants promoting and applying "scale-insensitive" management practices, supported by donors and international organisations employing expatriate specialists on limited contracts to staff posts for which locals are not qualified.

The dominant discourse is thus clearly focused on the differences that scale imposes on small states, particularly the microstates. However, while these sorts of constraints are identified and acknowledged in the literature on small states, they are rarely translated into dedicated programmes for improving public administration in small states. The Commonwealth Secretariat/World Bank *Task Force Report* (2000) and the *Review of the Small States Agenda* (Briguglio, Persaud and Stern, 2006) both bear this out. The former offers only very general (if nevertheless worthy) practical advice such as the need to establish a website to share good practice, to involve donors and regional organisations in specific programmes, and to secure political commitment for capacity building. In comparison to the other sections in the Report specific policy recommendation is relatively weak. The same goes for the recently concluded Review. It urges public-sector reform, regional initiatives and emerging opportunities for outsourcing government services. The latter are an important consideration. However, such outsourcing requires not only expensive infrastructure and reasonable competencies in ICT, but also a vibrant private sector to contract for the work. One wonders whether this really exists in the very small and poorer developing states. In short, have the distinctive difficulties of public service provision in small states really been acknowledged in policy recommendation to date? Similarly, do small states need specific programmes to build government effectiveness that are different from those of larger states, and if so how and what?

A recent study on public-sector reform in the Commonwealth Caribbean over the last ten years (Sutton, 2006) suggests that building an efficient and effective public service is no easy task. The record in the region shows many setbacks and only partial, and increasingly limited, success. The adoption of ideas and good practice elsewhere, in the form of "new public management" paradigms and programmes have not fundamentally changed the character of the public sector which in most places remains essentially unreformed. Much the same apparently goes for the Pacific region (Mellor and Jabes, 2004).

The inevitable conclusion from these reflections is that improvements in governmental effectiveness leading to better governance will take many years to achieve. There also needs to be some new thinking on the problems involved, beginning with a proper understanding of how the public sector works (or does not) in small states.

Encouraging the Private Sector

The need for the state to play a "catalytic and facilitating role, encouraging and complementing the activities of private businesses and individuals" has been a staple of the development literature since it was "rediscovered" in the *World Development Report 1997*. In the Task Force Report 2000 it made an appearance in the sections on trade, globalisation and capacity building where it focused respectively on trade policy and macroeconomic management; new opportunities in service provision, which meant more strategic action in the public sector in support of a dynamic private sector; and actions to support business through tax reforms, an improved regulatory environment, and encouragement of business associations and their various activities.

Much of this has been re-emphasised in the 2006 *Review of the Small States Agenda* (Briguglio, Persaud and Stern., 2006) particularly the need for small states to implement "a service-based and knowledge-based development paradigm" and to develop the private sector as "the engine of growth and development". While this involves the state in a variety of policy dimensions, in respect of private-sector development the two key policy elements have been competition policy and regulatory policy, both of which feature prominently in the calculation of the World Bank governance indicator on "regulatory quality".

In their edited book on *Competitiveness Strategies for Small States* (Briguglio et al. 2004: 27) conclude that "the main thrust of the studies ... is that competitiveness is essential for the economic success of small states, possibly much more so than is the case for larger states, due to their high degree of economic openness". The policies they recommend to improve international competitiveness call for government initiatives across a range of activities including delivering sound macroeconomic management, designing appropriate institutions to promote competitiveness, encouraging education and investment in human capital, supporting innovation and attitudinal change, fostering social cohesion, and developing infrastructure.

These are very demanding prerequisites for some small states and, even when some aspects of them can be delivered, there is no guarantee that success will follow. For example, the consultations following the publication of the 2006 *Review of the Small States Agenda* point to the belief of some officials that "while they had enacted "private sector friendly" policy regimes they were, in many cases, still waiting to see the investment response" (Briguglio et al., 2006: Annex I). The Review also highlighted the relatively high costs of doing business in small states. Some of this relates to competition policy within small states to reduce market abuse by monopolies and oligopolies. While this is no doubt a sound ambition, the very limited size of the market can render traditional approaches to competition policy redundant, to which there is a further consideration. In countries in which not only markets and firms are small, but the country is being increasingly opened to large international competitors, "local" firms (whether monopolies or not) will find it difficult to achieve competitive advantage.

This has recently been highlighted by Richard Bernal (2006) who has described most firms in CARICOM as "nano-firms" whose small size (less than 50 firms in CARICOM exceed the conventional definition of small firms as one with 500 employees or more) put them at a distinct disadvantage compared to those in Canada, the EU and the US which will be the first to benefit from the further opening of the region's markets. It follows that "special measures" need to be put in place to encourage the competitiveness of CARICOM firms at national, regional and international levels and, by inference, in other small states.

The other issue is an increase in regulatory capacity. As with competition policy, this has both an external and an internal dimension. The 2006 Review focuses in particular on developments in the financial regulatory environment which have sought to impose stringent regulatory and supervisory standards on the operations of offshore financial centres, many of which are found in small states. The introduction of these standards without consultation with small states led to disputes and ultimately to some concessions by the international organisations which sought to introduce them. The threat of future action, however, has not been removed and while small states have managed to secure some assistance for better regulation and supervision, as well as a voice in the development of overall policy, the burden of regulation remains high. It is therefore easy for small states to suddenly find themselves deficient in meeting externally-imposed standards, which in turn affects their chances of meeting the criteria of good governance in this area.

The 2006 review also touches on the need to develop effective domestic regulatory institutions and a "sound and predictable" regulatory environment. In essence, this means the development of institutions capable of managing technically-complex policy issues, and the presence of controls to prevent the arbitrary exercise of discretion. These again impose demanding standards on small states which may not have the level of expertise "in-house" to provide the former and can often be faced with substantial opposition in imposing the latter, as the studies of resistance to developing "modern" forms of property rights in the South Pacific by Jayaraman (2004) and Reddy (2004) demonstrate.

One way to proceed favoured in both the 2000 Task Force Report and the 2006 Review is through developing an appropriate regional regulatory approach in small states. The experience of the Eastern Caribbean Telecommunications Authority in developing "fairer competition" and "lower pricing" is commended in both. This is what might be described as a "modern expression" of long-standing regional co-operation in functional areas in the Caribbean such as meteorology and school examinations. However, such areas have developed only slowly and with much difficulty and while globalisation may have increased the areas of potential co-operation it does not mean that political action is any more disposed toward them. There is also the issue of how such "shared" measures are reported in the good governance indices: as national (when the blame for inaction may really lie at the regional level) or as regional—in which case there is the need to develop regional indicators (as discussed in the debate on good governance in the EU).

In short, on regulatory capacity, the above section endorses the view by Downes (2006: 127) that "a pragmatic approach to market reforms should be adopted in [small developing countries] given their special characteristics". At one level this does recognise the importance of small states, qua small states, but at another it also demands recognition of small states in a regional context and their developmental levels. With regard to relative size, it recognises that small states share similar characteristics but are also different. In many ways this is a statement of the obvious, but it does raise difficulties in developing specific policies (as against general statements of development orthodoxy) to improve government so as to ensure effectiveness and encourage private sector development through a supportive regulatory environment. The question then arises of what form of intervention at what level and how? Equally, it raises important issues as to what, in the construction of any index, should be measured and how.

5. Resilience and Good Governance

In his recent article on "regime choices in microstates" (defined as states with a population below one million), Anckar (2004: 115) makes several interesting observations. First, he finds that colonial heritage is "an important determinant of regime choice" with the vast majority of microstates introducing similar regimes to those prevailing in their respective former colonising power. Since these powers were much larger, the small size of the new state as compared to the former colonising power was not an issue in regime choice. Second, he notes the relative durability of regime type, with the regime prevailing today likely to be the same as that adopted at independence—a feature that was earlier identified in Sutton (1987: 8-12) as "institutional fidelity" in small states. Since change is infrequent and when it does occur it is in no particular direction as regards regime type, Anckar (2004: 216) finds there is no specific "small-state constitutional strategy that overrides the link to different metropolitan powers", implying that small size in itself does not, over time, tend towards a specific regime type. Third, since in the majority of cases, these states were former British colonies or protectorates, there is a dominance of parliamentary regimes (20 out of 36 cases), followed by absolute regimes (9 cases), presidential regimes (6 cases) and semi-presidential (1 case). This is distinctive from the global total, where only a quarter of the world have parliamentary regimes, just over one-third presidential regimes and just under one-third absolute regimes. It is also very provident for microstates, he argues, since "the scholarly literature on regimes, empirical evidence and most writers appear to favour the parliamentary model, which is found to foster a greater ability to rule" leaving microstates "well equipped in terms of institutional structure for managing political life and political affairs" (Anckar, 2004: 214).

These observations raise interesting questions. To begin with, does size matter in good governance? Anckar (2004) and others have shown a clear positive relationship between small size and democracy. But how far should this be taken when the wider concerns of governance, as proxied by regime choice, are considered? If a choice is to be made, should it be towards a parliamentary model, either to improve it or to better realise its benefits? And in either case, should it be undertaken at all given that there is a strong option in favour of the status quo – again, this feature was identified earlier in small states as "pragmatic conservatism" (Sutton, 1987: 18-19). Since we do not have clear-cut answers to these sorts of questions, the specification of any particular programme or any particular regime to encourage good governance (and build resilience) in small states, qua small states, is fraught with difficulty.

Adding to all this is the issue of complexity set out in Table 1. The 36 boxes identify potential interventions to build good governance, but provide no direction. Hyden and Court (2002) and Hyden et al. (2005) do suggest some priorities, but whether these are appropriate for small states is a matter of debate. For example, their finding in the government arena that civil-military relations are very important can be of relevance to some small states (Fiji immediately springs to mind) but for many, it is irrelevant since they do not have military forces as usually defined (Bartmann, 2002).

Again, in the civil society arena, the importance of freedom of expression and assembly is a matter of urgency in some small states (most notably Equatorial Guinea) but for many it is already secured, as their excellent record on democracy demonstrates.

The question quite simply is therefore – where to begin? Or even whether to begin at all? I raise this last question because, in their discussion of the Resilience Index, Briguglio et al. (2006) note that the highest correlation scores relate to "good governance and social development" and "good governance and market efficiency" raising questions "as to whether or not the good governance index is redundant". They choose to retain it on the grounds that the correlation was "not unduly high" but given the sort of questions I have just posed, this could be problematic, particularly if the intention is to build a robust index which will withstand academic and donor challenge and point to areas where resilience needs to be built.

While these considerations point to a case to leave good governance out of any index until we have better understanding, there is also the point I raised in my opening paragraph that at the heart of "nurtured resilience" is "good governance" (or at least governance). So it is difficult to see how it can be ignored. In this case, we have to be clear about what we mean by "governance", and "good governance" and about its purpose. The components adopted in the construction of the Resilience Index proposed by Briguglio et al. (2006: 275) emphasise it in relation to the economic system as represented by "issues such as rule of law and property rights" but then go on to use as one of its five components "political system and the integrity of the system" which is very broad gauged and normative in its determination. It would, perhaps, be better to be more tightly focused on "legal" criteria functional to the development of the economic system (in this case, a capitalist system, though this in itself might raise objection). At the same time, such a focus might also be too narrow.

When the debate on good governance was first introduced the World Bank had a much narrower view of its essential elements than it does today. Similarly, donors and international organisations now have a much more comprehensive view than they once had and a greater conviction that it really matters for development. So good governance will have to be acknowledged and treated as all-round rather than in a specific limited form.

In sum, there is the need to clarify what good governance means to resilience building in small states, and how to measure it to construct a resilience index. There are a lot of assumptions and a lot of generalisation but very few robust conclusions germane to small states, qua small states. As ever, small states remain a comparatively under-researched area in social science and the current state of knowledge about their political behaviour leaves much to be desired. There is no alternative but to go forward using what little we know about small states, but we must be aware of just how little it is.

6. Conclusion

This chapter argues that if we are to understand good governance in small states, then more work must be done on them as small states.

First of all, it is important to come forward with a definition of small states. The option of "self definition" is a convenient way of evading difficult political issues, but are Singapore and Papua New Guinea really small states? Or Lesotho and Jamaica for that matter?

Second, having defined a small state, we need to know whether they really are that different from large states. The Commonwealth Secretariat/World Bank Task Force Report (2000) argued they were—as had the earlier Commonwealth Secretariat reports (1985,1997) on small states. But in none of these publications is there compelling evidence in the governance sphere that this is the case, except in a very general way. True, the specific problems of public administration in small states are mentioned, but the remedies offered are not unique to small states but drawn largely from the literature on capacity building in developing states. In itself, it may be argued, this is all that is needed since most small states are developing states and policy can be adapted to suit their specific experiences. This viewpoint may have some validity, but the literature (and the present author's experience of 40 years of work and study in small states) points to unique characteristics in small states which are likely to require unique and customised solutions. Why, otherwise, should all reports on them raise the ritual incantation that they should learn from one another (the spread of good practice)?

Finally, we have to determine which policy works and why? This is both a research and an action programme. Research, because we do not have enough knowledge of governance in small states to confidently predict the outcomes of any programmes that are attempted. This applies across a raft of measures, beginning with a review of basic data such as those collected by the World Bank for their governance indicators, where too often for small states, there is only one (subjective) source for key elements of an indicator. Action is also needed, because small states still do not figure on the programmes of international agencies as "small states" as prominently as they should, given their inherent special characteristics, including economic vulnerability.

It is true that small states have, over many years, been given attention in the work of the Commonwealth Secretariat and, more recently, the World Bank. But the agenda adopted by both has been excessively economics-oriented and good governance has been treated as a means to an end in order to promote economic development, and not as a desirable objective in its own right. One of the characteristics of small states is that everything is interconnected in ways it is not in larger countries. This interconnectedness must be at the heart of policy to improve resilience and in turn demands a very broad brush policy approach to service the very special needs of small states.

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Appendix 1
Small States' Population and Gross National Income Per Capita

Country	Population ('000)	GNI per cap. US$, 2006	Country	Population ('000)	GNI per cap. US$, 2006
Guinea Bissau	1540	190	Bahamas	319	15100
Gambia	1478	310	Iceland	290	50580
Gabon	1362	5000	Belize	283	3650
Estonia	1349	11410	Barbados	269	8670
Trinidad & Tobago	1301	13340	Vanuatu	207	1710
Mauritius	1234	5450	Samoa	184	2270
Swaziland	1120	2430	St Lucia	164	5110
Timor Leste	925	840	São Tomé & Príncipe	153	780
Bhutan	896	1410	St Vincent	118	3930
Fiji Islands	841	3300	Micronesia	110	2380
Cyprus	826	18430	Grenada	106	4420
Djibouti	779	1060	Tonga	102	2170
Qatar	777	12000	Kiribati	98	1230
Guyana	750	1130	Seychelles	84	8650
Bahrain	716	14370	Antigua & Barbuda	80	11210
Montenegro	685	3860	Andorra	71	24000
Comoros	588	660	Dominica	71	3960
Cape Verde	495	2130	Marshall Islands	61	3000
Equatorial Guinea	492	8250	St Kitts & Nevis	47	8840
Solomon Islands	490	680	Monaco	34	27000
Luxembourg	453	76040	Liechtenstein	34	25000
Suriname	446	3200	San Marino	28	34600
Malta	401	13610	Palau	20	7990
Brunei	366	24100	Nauru	13	5000
Maldives	321	2680	Tuvalu	11	1100

Sources: *World Bank Atlas* and *CIA Fact Book* (latest available figures).

Appendix 2
Governance Indicators for 2006

Country	VA	PI	GE	RQ	RL	COR
Guinea Bissau	33.7	26.4	11.4	15.6	9.0	15.5
Gambia	23.6	53.4	26.1	39.5	47.6	30.6
Gabon	22.1	48.6	30.8	33.2	34.8	20.9
Estonia	78.8	71.2	85.3	92.2	80.5	80.1
Trinidad and Tobago	62.0	41.3	63.5	71.2	48.1	54.9
Mauritius	75.0	79.3	71.6	67.3	75.7	66.5
Swaziland	15.9	42.3	27.0	30.2	28.6	40.3
Timor Leste	38.5	16.8	26.5	6.8	11.4	19.9
Bhutan	22.6	95.2	65.9	47.3	68.1	80.6
Fiji Islands	34.6	50.5	52.6	39.0	51.9	45.6

See next page for legend of column headings and more data

Appendix 2 (continued)

Country	VA	PI	GE	RQ	RL	COR
Cyprus	86.1	60.6	87.2	86.8	81.9	79.1
Djibouti	21.2	39.4	15.6	18.5	25.2	28.6
Qatar	31.7	77.9	70.1	64.9	81.4	78.6
Guyana	50.5	26.9	51.7	32.2	27.6	32.0
Bahrain	27.4	32.2	66.4	71.7	66.7	71.4
Montenegro	47.1	51.4	48.8	37.6	38.6	39.8
Comoros	40.9	41.8	0.9	5.4	18.6	34.5
Cape Verde	74.5	78.8	61.1	45.4	66.2	72.8
Equatorial Guinea	3.4	40.9	7.6	8.3	9.5	1.5
Solomon Islands	51.9	51.0	18.0	13.2	20.0	49.0
Luxembourg	97.6	99.5	93.4	98.5	95.7	95.6
Suriname	56.3	49.0	54.5	41.0	49.5	52.4
Malta	89.9	92.3	86.3	86.3	91.4	84.5
Brunei	17.3	92.8	72.0	80.0	59.5	63.6
Maldives	20.2	72.1	56.9	59.5	58.1	39.3
Bahamas	79.3	80.8	84.8	83.9	88.6	90.8
Iceland	95.2	100	99.1	95.1	100	99.5
Belize	66.3	47.1	49.8	45.9	52.4	48.1
Barbados	85.1	84.1	86.7	76.6	83.3	85.0
Vanuatu	63.5	96.2	40.3	49.3	62.9	62.6
Samoa	64.4	88.5	57.8	53.2	81.0	63.1
St Lucia	89.4	81.3	79.6	84.4	76.2	83
São Tomé & Príncipe	55.3	63.9	20.9	22.4	42.4	38.8
St Vincent	79.8	84.6	78.7	77.1	76.2	81.6
Micronesia	80.8	85.6	47.9	56.6	69.5	50.0
Grenada	69.7	62.5	61.6	64.4	56.2	71.8
Tonga	46.2	66.3	29.9	22.0	64.3	5.3
Kiribati	63.0	96.2	35.5	17.1	77.6	59.2
Seychelles	54.3	83.7	53.1	26.3	54.8	60.7
Antigua & Barbuda	65.9	74.5	67.8	67.8	82.4	85.4
Andorra	91.8	96.2	90.0	88.3	88.1	85.4
Dominica	77.9	72.6	75.8	77.1	68.6	73.3
Marshall Islands	88.0	86.1	13.7	18.0	49.0	38.3
St Kitts & Nevis	85.6	94.2	77.7	80.5	76.2	81.6
Monaco	71.6	83.2	66.8	n/a	70.5	n/a
Liechtenstein	91.3	96.2	94.3	88.3	89.0	85.4
San Marino	88.0	86.1	46.9	n/a	70.5	n/a
Palau	88.9	86.1	31.8	n/a	70.5	n/a
Nauru	81.7	86.1	9.0	n/a	70.5	n/a
Tuvalu	71.2	96.2	45.5	21.5	83.8	56.3

Source: Kaufmann et al. (2007)

Column 2	Voice and Accountability (VA)
Column 3	Political Instability and Absence of Violence (PI)
Column 4	Government Effectiveness (GE)
Column 5	Regulatory Quality (RQ)
Column 6	Rule of Law (RL)
Column 7	Control of Corruption (COR)